

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BULLITT COUNTY CLERK

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts was engaged to audit the Bullitt County Clerk's statement of revenues, expenditures, and excess fees for the year ended December 31, 2003. High risk factors prevented us from issuing an opinion on the County Clerk's financial statement.

Debt Obligations:

Capital lease principal agreements totaled \$1,155,000 as of December 31, 2003. Future principal payments of \$1,155,000 are needed to meet these obligations.

Report Comments:

- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15
- Delinquent Tax Distributions Were Paid Late
- Federal Income Tax And FICA Withholdings Have Not Been Paid
- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Clerk's Office
- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Had Disallowed Expenditures
- Invoices For Operating Expenditures Were Paid Late
- The County Clerk Should Eliminate The Deficit Of \$1,172

Deposits:

The Clerk's deposits were under-collateralized by \$20,656 on August 31, 2003.

CONTENTS

PAGE

| | |
|---|----|
| INDEPENDENT AUDITOR'S REPORT..... | 1 |
| STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS | 3 |
| NOTES TO FINANCIAL STATEMENT | 7 |
| SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS | 10 |
| COMMENTS AND RECOMMENDATIONS..... | 13 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 19 |



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth Rigdon, Bullitt County Judge/Executive
Honorable Nora McCawley, Bullitt County Clerk
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bullitt County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk.

During our engagement we noted the County Clerk had serious weaknesses in her financial reporting function. The County Clerk did not maintain an accurate receipts ledger or disbursements ledger needed to prepare the financial statement. In addition, the County Clerk has serious weaknesses in the design and operation of internal controls due to the County Clerk not monitoring daily activity or reviewing work completed by her employees. Furthermore, there are high fraud risk factors associated with the engagement.

Because of serious weaknesses in the financial reporting function and the design and operation of internal controls due to the County Clerk not monitoring the activity of her office and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial statement referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kenneth Rigdon, Bullitt County Judge/Executive
Honorable Nora McCawley, Bullitt County Clerk
Members of the Bullitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15
- Delinquent Tax Distributions Were Paid Late
- Federal Income Tax And FICA Withholdings Have Not Been Paid
- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Clerk's Office
- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Had Disallowed Expenditures
- Invoices For Operating Expenditures Were Paid Late
- The County Clerk Should Eliminate The Deficit Of \$1,172

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bullitt County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 12, 2005

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

| | | | |
|---------------------------------|----|-----------|------------|
| State Fees For Services | | \$ | 20,969 |
| Fiscal Court | | | 2,208 |
| Licenses and Taxes: | | | |
| Motor Vehicle- | | | |
| Licenses and Transfers | \$ | 1,693,624 | |
| Usage Tax | | 6,074,751 | |
| Tangible Personal Property Tax | | 4,955,209 | |
| Other- | | | |
| Marriage Licenses | | 15,525 | |
| Beer and Liquor Licenses | | 2,635 | |
| Solicitor Licenses | | 8 | |
| Deed Transfer Tax | | 290,788 | |
| Delinquent Tax | | 681,628 | 13,714,168 |
| Fees Collected for Services: | | | |
| Recordings- | | | |
| Deeds, Easements, and Contracts | | 49,341 | |
| Real Estate Mortgages | | 282,328 | |
| Fixture Filing | | 1,120 | |
| Powers of Attorney | | 4,631 | |
| Deed of Release | | 84,877 | |
| Deed of Assignment | | 19,930 | |
| Title Lien Statements | | 171,657 | |
| Bail Bonds | | 2,289 | |
| Doing Business As | | 531 | |
| Plat Fees | | 900 | |
| Marginal Release | | 102 | |
| Affidavit of Descent | | 448 | |
| Encumbrances | | 8,579 | |
| Articles of Incorporation | | 1,753 | |
| Wills | | 1,456 | |
| Notary | | 4,394 | |
| Lien Fees | | 22,134 | |
| Charges for Other Services- | | | |
| Candidate Filing Fees | | 220 | |
| Copywork | | 15,547 | 672,237 |

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 NORA MCCAWLEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Revenues (Continued)

Other:

| | | | |
|----------------------|----|--------|-----------|
| Miscellaneous | \$ | 4,831 | |
| Court Orders | | 16 | |
| Variances | | 1,299 | |
| Postage | | 15,992 | |
| UPS | | 22 | |
| Reimbursements | | 1,149 | |
| Bad Checks Collected | | 1,780 | |
| Scrapped Plates | | 339 | \$ 25,428 |

| | | | |
|-----------------|--|--|--------|
| Interest Earned | | | 32,704 |
|-----------------|--|--|--------|

| | | | |
|----------------|--|--|---------------|
| Total Revenues | | | \$ 14,467,714 |
|----------------|--|--|---------------|

Expenditures

Payments to State:

| | | | |
|--------------------------------|----|-----------|--------------|
| Motor Vehicle- | | | |
| Licenses and Transfers | \$ | 1,281,126 | |
| Usage Tax | | 5,893,316 | |
| Tangible Personal Property Tax | | 1,845,249 | |
| Licenses, Taxes, and Fees- | | | |
| Delinquent Tax | | 93,437 | |
| Legal Process Tax | | 68,622 | |
| Miscellaneous | | 4,545 | \$ 9,186,295 |

Payments to Fiscal Court:

| | | |
|--------------------------------|---------|---------|
| Tangible Personal Property Tax | 522,244 | |
| Delinquent Tax | 69,850 | |
| Deed Transfer Tax | 276,060 | |
| Beer and Liquor Licenses | 2,423 | 870,577 |

Payments to Other Districts:

| | | |
|--------------------------------|-----------|-----------|
| Tangible Personal Property Tax | 2,389,709 | |
| Delinquent Tax | 350,222 | 2,739,931 |

| | | |
|---------------------|--|-------|
| Payments to Sheriff | | 6,336 |
|---------------------|--|-------|

| | | |
|-----------------------------|--|---------|
| Payments to County Attorney | | 102,736 |
|-----------------------------|--|---------|

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 NORA MCCAWLEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures

Personnel Services-

| | | | |
|--------------------|----|---------|--|
| Deputies' Salaries | \$ | 567,271 | |
|--------------------|----|---------|--|

Employee Benefits-

| | | | |
|----------------------------------|--|--------|--|
| Employer's Share Social Security | | 45,833 | |
|----------------------------------|--|--------|--|

| | | | |
|-----------------------------|--|--------|--|
| Employer's Share Retirement | | 41,632 | |
|-----------------------------|--|--------|--|

| | | | |
|----------------------------------|--|--------|--|
| Employer's Paid Health Insurance | | 47,001 | |
|----------------------------------|--|--------|--|

| | | | |
|----------------------------|--|-------|--|
| Other Payroll Expenditures | | 2,004 | |
|----------------------------|--|-------|--|

| | | | |
|------------------|--|-----|--|
| Cancer Insurance | | 574 | |
|------------------|--|-----|--|

Contracted Services-

| | | | |
|-----------------|--|---------|--|
| Computer Update | | 145,299 | |
|-----------------|--|---------|--|

| | | | |
|-------------------|--|--------|--|
| Tax Bill Printing | | 12,152 | |
|-------------------|--|--------|--|

Materials and Supplies-

| | | | |
|-----------------|--|---------|--|
| Office Supplies | | 133,817 | |
|-----------------|--|---------|--|

| | | | |
|-------------------|--|-------|--|
| Election Supplies | | 1,600 | |
|-------------------|--|-------|--|

Other Charges-

| | | | |
|------------------------|--|-----|--|
| Conventions and Travel | | 600 | |
|------------------------|--|-----|--|

| | | | |
|------|--|-------|--|
| Dues | | 2,250 | |
|------|--|-------|--|

| | | | |
|---------|--|-------|--|
| Postage | | 6,262 | |
|---------|--|-------|--|

| | | | |
|------------|--|-------|--|
| Bad Checks | | 3,040 | |
|------------|--|-------|--|

| | | | |
|--------------------|--|-----|--|
| Insurance and Bond | | 508 | |
|--------------------|--|-----|--|

| | | | |
|---------------|--|-------|--|
| Miscellaneous | | 1,481 | |
|---------------|--|-------|--|

| | | | |
|-------|--|-------|--|
| Phone | | 1,916 | |
|-------|--|-------|--|

| | | | |
|-------------------|--|-----|--|
| Professional Fees | | 844 | |
|-------------------|--|-----|--|

| | | | |
|----------|--|-------|--|
| Indexing | | 9,950 | |
|----------|--|-------|--|

| | | | |
|---------|--|-----|--|
| Refunds | | 740 | |
|---------|--|-----|--|

| | | | |
|----------|--|-------|--|
| Software | | 4,400 | |
|----------|--|-------|--|

| | | | |
|---------------------|--|-----|--|
| Bank Service Charge | | 200 | |
|---------------------|--|-----|--|

Auto Expenses-

| | | | |
|---------|--|----|-----------|
| Mileage | | 91 | 1,029,465 |
|---------|--|----|-----------|

| | | | |
|--------------------|--|--|---------------|
| Total Expenditures | | | \$ 13,935,340 |
|--------------------|--|--|---------------|

Less: Disallowed Expenditures

| | | | |
|-----------|----|----|--|
| Late Fees | \$ | 29 | |
|-----------|----|----|--|

| | | | |
|-----------------|--|----|--|
| Finance Charges | | 42 | |
|-----------------|--|----|--|

| | | | |
|------------------------------|--|----|--|
| Payment Protection Plan Fees | | 86 | |
|------------------------------|--|----|--|

| | | | |
|--------------------------------------|--|----|--|
| Meals Unrelated to Official Business | | 81 | |
|--------------------------------------|--|----|--|

| | | | |
|------------------------------------|--|-----|--|
| CDs Unrelated to Official Business | | 472 | |
|------------------------------------|--|-----|--|

| | | | |
|---------------------------------------|--|-----|--|
| Unidentified Credit Card Expenditures | | 462 | |
|---------------------------------------|--|-----|--|

| | | | |
|-------------------------------|--|--|----------|
| Total Disallowed Expenditures | | | \$ 1,172 |
|-------------------------------|--|--|----------|

| | | | |
|------------------------------|--|--|---------------|
| Total Allowable Expenditures | | | \$ 13,934,168 |
|------------------------------|--|--|---------------|

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 NORA MCCAWLEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

| | | | |
|---|----|----------------|----------------------|
| Net Revenues | | \$ | 533,546 |
| Less: Statutory Clerk Salary | | | <u>81,438</u> |
| Excess Fees | | \$ | 452,108 |
| Less: Expense Allowance | \$ | 3,600 | |
| Training Incentive Benefit | | <u>3,036</u> | <u>6,636</u> |
| Excess Fees Due County for 2003 | | \$ | 445,472 |
| Payments to Fiscal Court - Prior Year Overpayment | \$ | 17,539 | |
| May 4, 2004 | | <u>340,680</u> | <u>358,219</u> |
| Balance Due Fiscal Court at Completion of Audit | | \$ | <u><u>87,253</u></u> |

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BULLITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2003
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, on August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$20,656 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of August 31, 2003.

| | <u>Bank Balance</u> |
|---|----------------------------|
| FDIC insured | \$ 200,000 |
| Collateralized with securities held by pledging depository institution in the county official's name | 2,004,244 |
| Uncollateralized and uninsured | <u>20,656</u> |
| Total | <u><u>\$ 2,224,900</u></u> |

BULLITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2003
 (Continued)

Note 4. Escrow Account

The Clerk has an account used for mechanic material lien bonds. The account holds one bond for \$3,900. The account earned interest of \$53 for 2003. The balance in the account was \$4,236 as of December 31, 2003.

Note 5. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. There was an unexpended grant balance of \$377 at the beginning of the year. The account earned interest of \$4 during calendar year 2003. The unexpended grant balance was \$381 as of December 31, 2003.

Note 6. Operating Leases

The Clerk's office was committed to the following lease agreements as of December 31, 2003:

| Item Purchased | Monthly Payment | Term Of Agreement | Ending Date | Principal Balance December 31, 2003 |
|-------------------|--------------------|----------------------|----------------|--|
| Computer Software | \$ 10,000 | 120 Months | 1/1/2013 | \$ 1,080,000 |
| Computer Hardware | \$ 3,000 | 36 Months | 2/1/2006 | \$ 75,000 |

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2003

Assets

| | |
|-------------------------------|---------------------|
| Cash in Bank | \$ 1,168,670 |
| Deposits in Transit | 145,060 |
| Receivables (Interest earned) | <u>7,504</u> |
| Total Assets | <u>\$ 1,321,234</u> |

Liabilities

Paid Obligations-

| | |
|--------------------------------|----------------|
| Outstanding Checks | \$ 222,982 |
| Motor Vehicle Licenses | 47,574 |
| Tangible Personal Property Tax | 376,829 |
| Payroll Withholdings | 43,334 |
| Deed Tax | 47,213 |
| Delinquent Tax Distribution | 26,632 |
| Operating Expenses | 6,049 |
| Legal Process | 9,295 |
| 2002 Excess Fees | <u>340,680</u> |

| | |
|------------------------|---------------------|
| Total Paid Obligations | <u>\$ 1,120,588</u> |
|------------------------|---------------------|

Unpaid Obligations:

No Check Written:

| | |
|--|--------|
| Beer License | \$ 285 |
| Payroll Withholdings | 49,713 |
| 2003 Excess Fees | 87,253 |
| Delinquent Tax Due to 2004 Fee Account | 2,723 |

Check Written But Not Delivered:

| | |
|----------------|---------------|
| Delinquent Tax | <u>61,844</u> |
|----------------|---------------|

| | |
|--------------------------|-------------------|
| Total Unpaid Obligations | <u>\$ 201,818</u> |
|--------------------------|-------------------|

| | |
|-------------------|---------------------|
| Total Liabilities | <u>\$ 1,322,406</u> |
|-------------------|---------------------|

| | |
|--|--------------------------|
| Total Fund Deficit as of December 31, 2003 | <u><u>\$ (1,172)</u></u> |
|--|--------------------------|

COMMENTS AND RECOMMENDATIONS

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

1) The County Clerk Had Disallowed Expenditures

The Clerk paid credit card late fees of \$29, finance charges of \$42, payment protection plan fees of \$86, bought meals unrelated to official business for \$81, bought audio CDs from Fred Pryor, Inc. unrelated to official business for \$472 and did not provide supporting invoice to support several credit card charges of \$462. Unallowable and therefore disallowed expenditures related to this credit card for 2003 totaled \$1,172. Technical Audit Bulletin 93-001 states "Regarding county fee officials and property valuation administrators, any of the following practices shall be subject to report as an audit comment relating to Ky Const. S 173; KRS 61.190 and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499 (KY 1958) . . . (2) Gifts, entertainment or meals unrelated to official business . . . (6) Penalties for late payments; (7) Interest incurred when personal credit card is used by employee for official expenses; (13) Expenditures without proper and accurate documentation." We recommend the Clerk use the credit card for official business only and maintain supporting documentation for all expenditures, avoid paying late fees, finance charges, and payment protection fees.

County Clerk's Response:

This will be paid from my personal bank account.

2) The County Clerk Should Settle Excess Fees With Fiscal Court By March 15

Excess fees for 2003 were partially paid to the County Treasurer on May 5, 2004. KRS 64.152 requires the county clerk in counties of less than 70,000 to provide fiscal court with a statement of receipts and expenditures of the preceding calendar year, and to settle excess fees with fiscal court by March 15 each year. We recommend the remainder of 2003 excess fees be paid to the county treasurer and future financial statements and excess fee payments be made in a timely manner as required by statute.

County Clerk's Response:

These (remaining 2003) excess fees will be paid over as soon as all other (liabilities) have been paid out and accounts straightened out. Please find attached a copy of check.

3) Delinquent Tax Distributions Were Paid Late

November and December 2003 delinquent taxes collected by the Clerk were not distributed to the taxing districts until December 2004. KRS 134.480 requires the Clerk to make a report to the Revenue Cabinet, the county treasurer, and the proper officials of the taxing districts as often as such units may require, and not less than once in every thirty (30) days and to pay the amount of fees, costs, commissions, and penalties to the persons, agencies, or parties entitled thereto. We recommend the Clerk pay the delinquent tax distributions in the time required by statute.

County Clerk's Response:

This was an oversight and has now been paid.

BULLITT COUNTY
NORA MCCAULEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS:(Continued)

4) Invoices For Operating Expenditures Were Paid Late

Several invoices examined as part of our expenditure test sample were paid more than 30 days past the invoice date. KRS 65.140 states "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend bills be paid on time in the future.

County Clerk's Response:

I will try to do better as I now have some help.

5) Federal Income Tax And FICA Withholdings Have Not Been Paid

Federal income tax and FICA withholdings for October, November, and December 2003 along with the employer's share of FICA withholding have not been paid to the IRS. Federal 941 Reports and the Employer's Quarterly Federal Tax Returns were not completed for the entire year. Internal Revenue Code requires quarterly returns and payments of taxes withheld. We recommend the returns and payments be submitted as required.

County Clerk's Response:

Payments and reports are being caught up.

6) The County Clerk Should Eliminate The Deficit Of \$1,172

The County Clerk should eliminate the deficit of \$1,172 as of December 31, 2003, which is reflected in the Schedule of Excess of Liabilities Over Assets. This deficit is the result of disallowed expenditures. We recommend the County Clerk deposit \$1,172 of personal funds into her 2003 account. We further recommend the County Clerk make all payments due as unpaid obligations and collect all receivables due her as reflected in the Schedule of Excess of Liabilities Over Assets to eliminate this deficit and close the 2003 fee account.

County Clerk's Response:

None.

BULLITT COUNTY
NORA MCCAULEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS:(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

7) The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Clerk's Office

During the course of our audit, we noted the following deficiencies in the accounting records of the Clerk's office:

- The Clerk did not prepare and file the quarterly financial reports for 2003 as required by the Governor's Office for Local Development.
- The Clerk did not prepare or publish an annual settlement for 2003 as required by KRS 424.220.
- The Clerk did not prepare monthly bank reconciliations for the fee account.
- Social Security and Medicare withholdings are being incorrectly computed on employees W-2's.

County Clerk's Response:

I promise to do better. I'm in the process of filing my quarterly financial reports with GOLD. I will then publish the annual settlement. I'm reconciling current years bank statements. As for the social security and medicare being incorrectly computed, I don't understand because two CPAs have looked and helped me set it up so that it would be right. Apparently it's not. I'm checking again.

8) The County Clerk's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically agree daily checkout sheet totals to the receipts ledger and deposit slip. Any differences should be reconciled.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Clerk should agree monthly reports to receipts ledger and disbursements ledger.

These reviews should be evidenced with the Clerk's initials.

County Clerk's Response:

There are only so many employees you can farm these duties out to. I'll try.

BULLITT COUNTY
NORA MCCAULEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

PRIOR YEAR:

The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Clerk's Office

This has not been corrected and is repeated in this report.

The County Clerk Should Settle Excess Fees With Fiscal Court By March 15th

While 2001 and 2002 excess fees have been paid, this comment is repeated above concerning 2003 excess fees.

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated in this report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth Rigdon, Bullitt County Judge/Executive
Honorable Nora McCawley, Bullitt County Clerk
Members of the Bullitt County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Bullitt County Clerk for the year ended December 31, 2003, and have issued our report thereon dated July 12, 2005, wherein we disclaimed an opinion on the financial statement based on our inability to overcome the serious weaknesses in her financial reporting function, serious weaknesses in the design of internal controls, and because of high risk factors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bullitt County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Clerk's Office
- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bullitt County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Settle Excess Fees With Fiscal Court By March 15
- Delinquent Tax Distributions Were Paid Late
- Federal Income Tax And FICA Withholdings Have Not Been Paid
- The County Clerk Had Disallowed Expenditures
- Invoices For Operating Expenditures Were Paid Late
- The County Clerk Should Eliminate The Deficit Of \$1,172

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 12, 2005

